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CITY OF TALLULAH
Tallulah, Louisiana

General Purpose Financial Statements
With Independent Auditors' Report
As of and for the Year Ended
June 30, 2002
With Supplemental Information Schedules

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 1/15/03

LITTLE & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

CITY OF TALLULAH
Tallulah, Louisiana

General Purpose Financial Statements
With Independent Auditors' Report
As of and for the Year Ended
June 30, 2002
With Supplemental Information Schedules

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CITY OF TALLULAH
Tallulah, Louisiana
Contents, June 30, 2002

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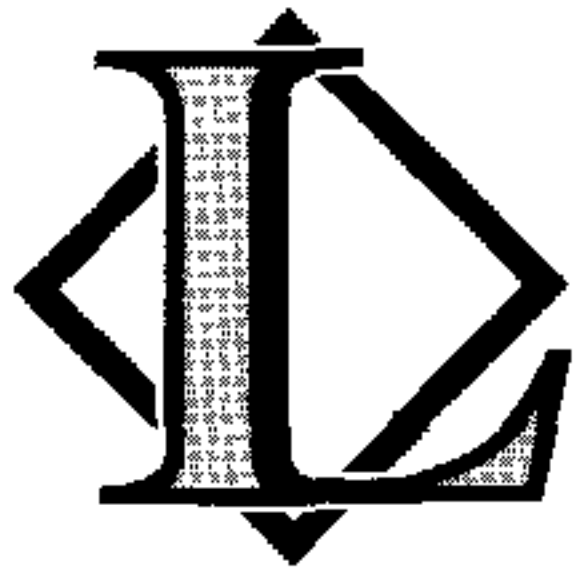
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CITY OF TALLULAH
Tallulah, Louisiana
Contents, June 30, 2002

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LITTLE & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

Wm. TODD LITTLE, CPA
JAMES C. BOND, CPA
CHARLES R. MARCHBANKS, JR., CPA

Mayor and Council Members
City of Tallulah
Tallulah, Louisiana

We have audited the general purpose financial statements of the City of Tallulah as of June 30, 2002, and for the year then ended, as listed in the table of contents. These financial statements are the responsibility of the City of Tallulah's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with U. S. generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the City of Tallulah as of June 30, 2002, and the results of operations and cash flows of its proprietary funds for the year then ended, in conformity with U. S. generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The supplemental information, including the schedule of expenditures of federal awards as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, listed in the table of contents are presented for the purpose of additional analysis and are not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented in all material respects, in relation to the general purpose financial statements taken as a whole.

Mayor and Council Members
City of Tallulah
Tallulah, Louisiana
Independent Auditors' Report,
June 30, 2002

In accordance with *Government Auditing Standards*, we have also issued a report dated December 26, 2002, on our consideration of the City of Tallulah's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Litt & Associates

Monroe, Louisiana
December 26, 2002

**GENERAL PURPOSE FINANCIAL STATEMENTS
(OVERVIEW)**

Statement A

CITY OF TALLULAH
Tallulah, Louisiana
ALL FUND TYPES AND ACCOUNT GROUPS

Combined Balance Sheet, June 30, 2002

	GOVERNMENTAL FUND TYPE			CAPITAL PROJECTS FUNDS		PROPRIETARY FUND TYPE - ENTERPRISE FUNDS	ACCOUNT GROUPS		TOTAL (MEMORANDUM ONLY)
	GENERAL FUND	SPECIAL REVENUE FUNDS	DEBT SERVICE FUNDS	FUNDS	FUNDS		GENERAL FIXED ASSETS	LONG-TERM OBLIGATIONS	
ASSETS AND OTHER DEBITS									
Current assets:									
Cash and cash equivalents	\$1,068,250	\$218,898	\$302,244			\$955,224			\$2,544,616
Receivables	219,228					249,016			468,244
Due from other funds	195,230	785				69,060			265,075
Prepaid expenses						1,748			1,748
Restricted assets:									
Cash						16,492			16,492
Investments			486,778			808,411			1,295,189
Land, buildings, equipment, and improvements (net of accumulated depreciation)						16,176,028	\$3,583,481		19,759,509
Deferred bond issue costs (net of amortization)						283,785			283,785
Amount available in debt service funds							\$789,022		789,022
Amount to be provided for retirement of general long-term obligations								2,577,628	2,577,628
TOTAL ASSETS AND OTHER DEBITS	<u>\$1,482,708</u>	<u>\$219,683</u>	<u>\$789,022</u>	<u>NONE</u>	<u>NONE</u>	<u>\$18,559,764</u>	<u>\$3,583,481</u>	<u>\$3,366,650</u>	<u>\$28,001,308</u>
LIABILITIES AND FUND EQUITY									
Current liabilities (payable from current assets):									
Bank overdraft				\$2					\$2
Accounts payable	\$242,694	\$12,399				\$153,853			408,946
Salaries payable	23,614					14,353			37,967
Due to other funds	15,618	13,560		293		235,604			265,075
Deferred revenue		104,952				25,361			130,313
Total current liabilities (payable from current assets)	<u>281,926</u>	<u>130,911</u>	<u>NONE</u>	<u>295</u>	<u>295</u>	<u>429,171</u>	<u>NONE</u>	<u>NONE</u>	<u>842,301</u>

Statement B

CITY OF TALLULAH
Tallulah, Louisiana
GOVERNMENTAL FUND TYPE

Combined Statement of Revenues, Expenditures,
and Changes in Fund Balances
For the Year Ended June 30, 2002

	<u>GENERAL FUND</u>	<u>SPECIAL REVENUE FUNDS</u>	<u>DEBT SERVICE FUNDS</u>	<u>CAPITAL PROJECTS FUNDS</u>	<u>TOTAL (MEMORANDUM ONLY)</u>
REVENUES					
Taxes:					
Ad valorem	\$383,104	\$133,210	\$153,116		\$669,430
Sales	1,046,749				1,046,749
Other taxes, penalties, and interest	164,941				164,941
Licenses and permits	167,041				167,041
Intergovernmental:					
Federal grants	27,040	153,835			180,875
State grants	190,156				190,156
Local funds	29,278			17,950	47,228
Fees, charges, and commissions for services	8,400				8,400
Use of money and property	35,992	1,458	2,171		39,621
Fines and forfeitures	52,155				52,155
Other revenues	43,923				43,923
Total revenues	<u>2,148,779</u>	<u>288,503</u>	<u>155,287</u>	<u>17,950</u>	<u>2,610,519</u>
EXPENDITURES					
Current:					
General government:					
Legislative	55,275				55,275
Financial and administrative	784,739			17,950	802,689
Public safety	888,159				888,159
Public works	460,140	83,594			543,734
Health and welfare		160,696			160,696
Culture and recreation	118,836				118,836
Transportation	26,257				26,257
Other				97	97
Debt service	176,282		365,111		541,393
Capital outlay	47,360			84,392	131,752
Total expenditures	<u>2,557,048</u>	<u>244,290</u>	<u>365,111</u>	<u>102,439</u>	<u>3,268,888</u>
EXCESS (Deficiency) OF REVENUES OVER EXPENDITURES	<u>(408,269)</u>	<u>44,213</u>	<u>(209,824)</u>	<u>(84,489)</u>	<u>(658,369)</u>

(Continued)

Statement B**CITY OF TALLULAH**

Tallulah, Louisiana

GOVERNMENTAL FUND TYPECombined Statement of Revenues, Expenditures,
and Changes in Fund Balances, Etc.

	<u>GENERAL FUND</u>	<u>SPECIAL REVENUE FUNDS</u>	<u>DEBT SERVICE FUND</u>	<u>CAPITAL PROJECTS FUNDS</u>	<u>TOTAL (MEMORANDUM ONLY)</u>
OTHER FINANCING SOURCE (Use)					
Loan proceeds				\$70,934	\$70,934
Insurance recovery	\$8,330				8,330
Operating transfers in	207,500		\$239,292	13,049	459,841
Operating transfers out	(252,341)				(252,341)
Total other financing source (use)	<u>(36,511)</u>	<u>NONE</u>	<u>239,292</u>	<u>83,983</u>	<u>286,764</u>
EXCESS (Deficiency) OF REVENUES AND OTHER SOURCE OVER EXPENDITURES AND OTHER USES	(444,780)	\$44,213	29,468	(506)	(371,605)
FUND BALANCES AT BEGINNING OF YEAR	<u>1,645,562</u>	<u>44,559</u>	<u>759,554</u>	<u>211</u>	<u>2,449,886</u>
FUND BALANCES AT END OF YEAR	<u><u>\$1,200,782</u></u>	<u><u>\$88,772</u></u>	<u><u>\$789,022</u></u>	<u><u>(\$295)</u></u>	<u><u>\$2,078,281</u></u>

(Concluded)

The accompanying notes are an integral part of this statement.

CITY OF TALLULAH
Tallulah, Louisiana
GOVERNMENTAL FUND TYPE - GENERAL
AND SPECIAL REVENUE FUNDS

Combined Statement of Revenues, Expenditures,
and Changes in Fund Balances - Budget
(GAAP Basis) and Actual
For the Year Ended June 30, 2002

GENERAL FUND....		SPECIAL REVENUE FUNDS....		
			VARIANCE FAVORABLE (UNFAVORABLE)			VARIANCE FAVORABLE (UNFAVORABLE)
	<u>BUDGET</u>	<u>ACTUAL</u>		<u>BUDGET</u>	<u>ACTUAL</u>	
REVENUES						
Taxes:						
Ad valorem	\$375,000	\$383,104	\$8,104	\$150,000	\$133,210	(\$16,790)
Sales	925,000	1,046,749	121,749			
Other taxes, penalties, and interest	197,200	164,941	(32,259)			
Licenses and permits	133,000	167,041	34,041			
Intergovernmental revenues:						
Federal funds - federal grants	27,780	27,040	(740)	185,000	153,835	(31,165)
State funds - state grants	238,700	190,156	(48,544)			
Local funds		29,278	29,278			
Fees, charges, and commissions	28,800	8,400	(20,400)			
Use of money and property	49,000	35,992	(13,008)		1,458	1,458
Fines and forfeitures	80,400	52,155	(28,245)			
Other revenues	35,500	43,923	8,423			
Total revenues	<u>2,090,380</u>	<u>2,148,779</u>	<u>58,399</u>	<u>335,000</u>	<u>288,503</u>	<u>(46,497)</u>
EXPENDITURES						
Current:						
General government:						
Legislative	126,900	55,275	71,625			
Finance and administrative	1,524,870	784,739	740,131	110,000		110,000
Public safety	88,260	888,159	(799,899)			
Public works	130,400	460,140	(329,740)	30,000	83,594	(53,594)
Health and welfare				165,000	160,696	4,304
Culture and recreation		118,836	(118,836)			
Economic development	1,320		1,320			
Transportation	30,000	26,257	3,743			
Debt service	130,804	176,282	(45,478)			
Capital outlay	90,280	47,360	42,920			
Total expenditures	<u>2,122,834</u>	<u>2,557,048</u>	<u>(434,214)</u>	<u>305,000</u>	<u>244,290</u>	<u>60,710</u>
EXCESS (Deficiency) OF REVENUES OVER EXPENDITURES	<u>(32,454)</u>	<u>(408,269)</u>	<u>(375,815)</u>	<u>30,000</u>	<u>44,213</u>	<u>14,213</u>

(Continued)

Statement C

CITY OF TALLULAH

Tallulah, Louisiana

GOVERNMENTAL FUND TYPE - GENERAL
AND SPECIAL REVENUE FUNDSCombined Statement of Revenues, Expenditures,
and Changes in Fund Balances - Budget
(GAAP Basis) and Actual, 2002

GENERAL FUND....		SPECIAL REVENUE FUNDS....		
			VARIANCE FAVORABLE (UNFAVORABLE)			VARIANCE FAVORABLE (UNFAVORABLE)
	<u>BUDGET</u>	<u>ACTUAL</u>		<u>BUDGET</u>	<u>ACTUAL</u>	
OTHER FINANCING SOURCES (Uses)						
Insurance proceeds		\$8,330	\$8,330			
Operating transfers in	225,000	207,500	(17,500)			
Operating transfer out	<u>(338,000)</u>	<u>(252,341)</u>	<u>85,659</u>			
Total other financing sources (uses)	<u>(113,000)</u>	<u>(36,511)</u>	<u>76,489</u>	<u>NONE</u>	<u>NONE</u>	<u>NONE</u>
EXCESS (Deficiency) OF REVENUES AND OTHER SOURCE OVER EXPEND- ITURES AND OTHER USES	(145,454)	(444,780)	(299,326)	30,000	44,213	14,213
FUND BALANCES AT BEGINNING OF YEAR	<u>1,418,456</u>	<u>1,645,562</u>	<u>227,106</u>	<u>82,000</u>	<u>44,559</u>	<u>(37,441)</u>
FUND BALANCES AT END OF YEAR	<u>\$1,273,002</u>	<u>\$1,200,782</u>	<u>(\$72,220)</u>	<u>\$112,000</u>	<u>\$88,772</u>	<u>(\$23,228)</u>

(Concluded)

The accompanying notes are an integral part of this statement.

Statement D

CITY OF TALLULAH
Tallulah, Louisiana
PROPRIETARY FUND TYPE - ENTERPRISE FUNDS

Combined Statement of Revenues, Expenses, and
Changes in Retained Earnings
For the Year Ended June 30, 2002

OPERATING REVENUES

Charges for services	\$2,000,086
Other operating revenue	<u>228,376</u>
Total operating revenue	<u>2,228,462</u>

OPERATING EXPENSES

Personal services	838,642
Supplies	120,310
Maintenance	235,662
Utilities	162,684
Miscellaneous	117,335
Uniforms	11,080
Insurance	29,020
Accounting fees	7,750
Bad debt expense	25,414
Depreciation	<u>464,684</u>
Total operating expenses	<u>2,012,581</u>

OPERATING INCOME

215,881

NON-OPERATING REVENUES (Expenses)

Grant revenue	1,601,550
Interest income	40,276
Interest expense	(427,061)
Increase in capital lease	21,852
Debt service	(874)
Operating transfer out	(207,500)
Amortization of bond issue costs	<u>(21,514)</u>
Total non-operating revenues (expenses)	<u>1,006,729</u>

NET INCOME (Loss)

1,222,610

Add depreciation on fixed assets acquired with restricted federal grant

136,555

INCREASE (Decrease) IN RETAINED EARNINGS

1,359,165

RETAINED EARNINGS AT BEGINNING OF YEAR

1,475,549

RETAINED EARNINGS AT END OF YEAR

\$2,834,714

The accompanying notes are an integral part of this statement.

CITY OF TALLULAH
Tallulah, Louisiana
PROPRIETARY FUND TYPE - ENTERPRISE FUNDS

Combined Statement of Cash Flows
For the Year Ended June 30, 2002

CASH FLOWS FROM OPERATING ACTIVITIES

Operating Income	<u>\$215,881</u>
Adjustments to Reconcile Operating Income to Net cash	
Provided by operating activities:	
Depreciation	464,684
Decrease in accounts receivable	(63,934)
Decrease in accounts payable	(88,296)
Increase in interfund receivables	(69,060)
Increase in interfund payables	47,885
Increase in prepaid expenses	(1,748)
Decrease in customer deposits	<u>(58,286)</u>
Total adjustments	<u>231,245</u>
Net cash provided (used) by operating activities	<u>447,126</u>

**CASH FLOWS FROM NONCAPITAL AND
RELATED FINANCING ACTIVITIES**

Non-operating transfer out	<u>(207,500)</u>
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**CASH FLOWS FROM CAPITAL AND
RELATED FINANCING ACTIVITIES**

Acquisition and construction of capital assets	(2,268,361)
Increase in capital lease	21,852
Increase in deferred revenue	15,259
Debt service	(874)
Bonds proceeds	2,461,000
Bond payment	(145,000)
Interest paid on bonds	<u>(427,061)</u>
Net cash provided (used) by capital and related financing activities	<u>(343,185)</u>

CASH FLOW FROM INVESTING ACTIVITIES

Interest earnings	<u>40,276</u>
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NET CHANGE IN CASH AND CASH EQUIVALENTS

(63,283)

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR1,843,410**CASH AND CASH EQUIVALENTS AT END OF YEAR**\$1,780,127

The accompanying notes are an integral part of this statement.

CITY OF TALLULAH
Tallulah, Louisiana

Notes to the Financial Statements
As of and for the Year Ended June 30, 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Tallulah was founded in 1856 and is incorporated under the provisions of Lawrason Act. The city is governed by the mayor and a five member city council. The mayor and council members serve four-year terms which expire on June 30, 2002.

A. REPORTING ENTITY

As the governing authority of the city, for reporting purposes, the City of Tallulah is considered a separate financial reporting entity. The financial reporting entity consists of (a) the primary government (the city), (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Governmental Accounting Standards Board (GASB) Statement No. 14 established criteria for determining which component units should be considered part of the City of Tallulah for financial reporting purposes. The basic criterion for including a potential component unit within the reporting entity is financial accountability. The GASB has set forth criteria to be considered in determining financial accountability. This criteria includes:

1. Appointing a voting majority of an organization's governing body, and
 - a. The ability of the city to impose its will on that organization and/or
 - b. The potential for the organization to provide specific financial benefits to or impose specific financial burdens on the city.
2. Organizations for which the city does not appoint a voting majority but are fiscally dependent on the city.
3. Organizations for which the reporting entity financial statements would be misleading if data of the organization is not included because of the nature or significance of the relationship.

CITY OF TALLULAH

Tallulah, Louisiana

Notes to the Financial Statements (Continued)

Because the city appoints the governing body of the Tallulah Housing Authority, the housing authority was determined to be a component unit of the City of Tallulah, the financial reporting entity. The accompanying financial statements present information only on the funds maintained by the city and do not present information on the housing authority or the general government services provided by that governmental unit.

B. FUND ACCOUNTING

The city uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts that comprises its assets, liabilities, fund equity, revenues, and expenditures. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities (general fixed assets and general long-term obligations) that are not recorded in the "funds" because they do not directly affect net expendable available financial resources. They are concerned only with the measurement of financial position, not with the measurement of results of operations.

Funds are classified into three categories; governmental, proprietary, and fiduciary. Each category, in turn, is divided into separate "fund types." Governmental funds are used to account for a government's general activities, where the focus of attention is on the providing of services to the public as opposed to proprietary funds where the focus of attention is on recovering the cost of providing services to the public or other agencies through service charges or user fees. Fiduciary funds are used to account for assets held for others. The city's current operations require the use of governmental and proprietary fund types described as follows:

Governmental Funds:

General Fund

The General Fund is the general operating fund of the city. It accounts for all financial resources, except those required to be accounted for in other funds.

Special Revenue Funds

The Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

CITY OF TALLULAH
Tallulah, Louisiana
Notes to the Financial Statements (Continued)

Debt Service Funds

The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Funds

Capital projects funds are used to account for financial resources received and used for the acquisition, construction, or improvement of capital facilities not reported in the other governmental funds.

Proprietary Fund Type - Enterprise Funds

Enterprise Funds account for the operations of the city's sewer and water systems. The operations are financed and operated in a manner similar to a private business enterprise, where the intent of the governing body is that the cost (expenses, including depreciation) of providing services on a continuing basis be financed or recovered primarily through user charges.

C. FIXED ASSETS AND LONG-TERM DEBT

Fixed assets used in governmental fund type operations (general fixed assets) are accounted for in the general fixed asset account group, rather than in the General Fund. All purchased fixed assets are valued at cost where historical records are available and at estimated cost where no historical records are available. Approximately 49 per cent of fixed assets are valued at actual cost, while the remaining 51 per cent are valued at estimated cost based on the actual cost of like items. No depreciation has been provided on general fixed assets.

The cost of normal maintenance and repairs that do not add to the value of fixed assets or materially extend their useful lives are not capitalized. Public domain (infrastructure) general fixed assets consisting of roads, bridges, drainage, parking lots, etc. are not capitalized, as these assets are immovable and of value only to the city.

Long-term obligations, such as bonded debt and bank loans are recognized as liabilities of a governmental fund only when due.

The fixed assets used in the proprietary fund type operations are included on the balance sheet of the fund. Depreciation of all exhaustible fixed assets used by the proprietary fund type operations are charged as an expense against operations. Depreciation is computed using the

CITY OF TALLULAH

Tallulah, Louisiana

Notes to the Financial Statements (Continued)

straight-line method over estimated lives of 60 years for the plant, distribution system, and collection system, 3 to 10 years for furniture and equipment.

D. BASIS OF ACCOUNTING

The financial and reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements for these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting is used for reporting all governmental fund types. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The city uses the following practices in recognizing and reporting revenues and expenditures:

Revenues

Ad valorem taxes are recorded in the year the taxes are due and payable. Ad valorem taxes are assessed on a calendar year basis and attach as an enforceable lien and become due and payable on the date the tax rolls are filed with the recorder of mortgages. Louisiana Revised Statute 47:1994 requires that the tax roll be filed on or before November 15 of each year. Ad valorem taxes become delinquent if not paid by December 31. The taxes are normally collected in December, January and February of the current year.

Franchise taxes and intergovernmental revenues are recorded when the city is entitled to the funds.

Interest income on time deposits is recorded when the interest has been earned and the amount is determinable.

Substantially all other revenues are recorded when they are received by the city.

Based on the above criteria, ad valorem taxes, franchise taxes and intergovernmental revenues have been treated as susceptible to accrual.

CITY OF TALLULAH
Tallulah, Louisiana
Notes to the Financial Statements (Continued)

Expenditures

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred.

Other Financing Source (Use)

Transfers between funds that are not expected to be repaid are accounted for as other financing sources and are recognized when the underlying event occurs.

The Sewer and Water Enterprise Funds are maintained on the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

E. BUDGET PRACTICES

A preliminary budget for the ensuing year is prepared by the clerk in May. The proposed budget is reviewed by the mayor and the city council and made available to the public. During the June meeting of the city council, the city holds a public hearing on the proposed budget in order to receive comments from citizens. Changes are made to the proposed budget based on the public hearing and the desires of the city council as a whole. The budget is then adopted during the June meeting, and notice is published in the official journal.

During the year, the city council receives monthly budget comparison statements which are used as a tool to control the operations of the city. The city clerk presents necessary budget amendments to the board when he determines that actual operations are differing materially from those anticipated in the original budget. The board in regular session reviews the proposed amendments, makes necessary changes, and formally adopts the amendments. The adoption of amendments is included in the city's minutes published in the official journal. The budget is established and controlled by the mayor and city council at the functional level of expenditure. Unexpended appropriations lapse at year-end and must be reappropriated for the following year to be expended. All changes in the budget must be approved by the mayor and the city council. The city does not use encumbrance accounting in its accounting system.

CITY OF TALLULAH

Tallulah, Louisiana

Notes to the Financial Statements (Continued)

F. CASH AND CASH EQUIVALENTS

Under state law, the city may deposit funds within a fiscal agent bank organized under the laws of the State of Louisiana, the laws of any other state in the union, or the laws of the United States. The city may invest in certificates and time deposits of state banks organized under Louisiana law and national banks having principal offices in Louisiana.

At June 30, 2002, the city has cash and cash equivalents, net of cash overdrafts (book balances) totaling \$2,561,106 as follows:

Demand deposits	\$1,173,784
Petty cash	1,908
Time deposits	<u>1,385,414</u>
Total	<u>\$2,561,106</u>

These deposits are stated at cost, which approximates market. Under state law, these deposits (or the resulting bank balances) must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. These securities are held in the name of the pledging fiscal agent bank in a holding or custodial bank that is mutually acceptable to both parties. Cash and cash equivalents (bank balances) at June 30, 2002, are secured as follows:

Bank Balances	<u>\$2,584,155</u>
Federal deposit insurance	386,213
Pledged securities (uncollateralized)	<u>3,112,771</u>
Total	<u>\$3,498,984</u>

Because the pledged securities are held by a custodial bank in the name of the fiscal agent bank rather than in the name of the city, they are considered uncollateralized (Category 3) under the provisions of GASB Codification C20.106; however, Louisiana Revised Statute 39:1229 imposes a statutory requirement on the custodial bank to advertise and sell the pledged securities within 10 days of being notified by the city that the fiscal agent bank has failed to pay deposited funds upon demand.

For purposes of the statement of cash flows, cash equivalents include all highly liquid investments with a maturity date of three months or less when purchased.

CITY OF TALLULAH

Tallulah, Louisiana

Notes to the Financial Statements (Continued)

G. INVESTMENTS

Under state law, the city may invest funds in obligations of the United States, in federally insured investments, or in time deposits with state banks organized under Louisiana law and national banks having principal offices in Louisiana. Investments in marketable securities (United States Treasury Notes) are reported at their cost on Statement A, which is the same as their market value.

H. VACATION AND SICK LEAVE

Permanent, full-time employees receive from five to ten days of vacation leave each year depending on length of service. Employees may accumulate vacation leave. Sick leave is earned at the rate of ten days per year; however, no employee may accumulate more than ten days of sick leave. Employees who resign or retire are compensated for annual leave accumulated to the date of separation, not to exceed 10 days, provided in the case of resignation the employee has completed at least 12 months of continuous service and has given 2 weeks notice of resignation.

The cost of leave privileges, computed in accordance with GASB Codification Section C60, is recognized as a current-year expenditure in the governmental funds when leave is actually taken or when employees are paid for accrued leave upon resignation or retirement.

I. RESTRICTED ASSETS

Certain grants received by the city contained restrictions on spending for specific purposes. In the Sewer Enterprise Fund, specially assessed sewer fees are restricted for future repair and maintenance of the sewer system.

J. TOTAL COLUMNS ON THE COMBINED STATEMENTS

The total columns on the combined statements are captioned Memorandum Only (overview) to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

CITY OF TALLULAH

Tallulah, Louisiana

Notes to the Financial Statements (Continued)

K. RISK MANAGEMENT

The city is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and injuries to employees. To handle such risk of loss, the city maintains commercial insurance policies covering its automobiles, professional liability, general liability, and surety bond coverage. There were no significant reductions in insurance coverage during the year ended June 30, 2002.

2. LEVIED TAXES

The following is a summary of authorized and levied ad valorem taxes:

	<u>Authorized Millage</u>	<u>Levied Millage</u>
City operations	17.93	17.39
Police and fire departments	7.53	7.53
1991 Street Program	9.48	9.48
1988 General Obligation Bond	Various	8.10
1981 General Obligation Bond	Various	.50

The difference between authorized and levied millages is the result of reassessments of taxable property required by article 7, Section 18(f) of the Louisiana Constitution of 1974.

The following are the principal taxpayers for the parish and their 2002 assessed valuation:

	<u>Assessed Valuation</u>	<u>Per Cent of Total</u>
FBA, LLC	\$1,155,524	7.42 %
Bellsouth Telecommunications	226,770	1.46 %
Atmos Entergy	194,609	1.25 %
Entergy Louisiana, Inc.	122,880	0.79 %
Sprint Communications	68,900	0.44 %
Country Meadows Limited	65,010	0.42 %
Star Lodge Apts., Inc.	60,960	0.39 %
Madison Community Apartments	39,700	0.25 %
Crown Communication, Inc.	\$33,360	0.21 %
Kansas City Southern	31,840	0.20 %
Total	<u>\$1,999,553</u>	<u>12.84 %</u>

CITY OF TALLULAH
Tallulah, Louisiana
Notes to the Financial Statements (Continued)

3. RECEIVABLES

The following is a summary of receivables at June 30, 2002:

<u>Class of Receivable</u>	<u>General Fund</u>	<u>Enterprise Funds</u>	<u>Total</u>
Taxes:			
Sales and use	\$90,693		\$90,693
Other taxes, penalties, and interest	5,567		5,567
Grants:			
Federal	60,582		60,582
State	61,970		61,970
Sewer user fees		\$40,842	40,842
Water user fees		128,655	128,655
Other	415		415
Total	<u>\$219,227</u>	<u>\$169,497</u>	<u>\$388,724</u>

4. DUE FROM/TO OTHER FUNDS

Individual balances due from/to other funds at June 30, 2002, are as follows:

	<u>Due to Other Funds</u>	<u>Due from Other Funds</u>
General Fund	\$15,618	\$195,230
Special Revenue Funds:		
Street Program	13,560	785
Capital Projects Funds:		
LCDBG	193	
Fire Protection	100	
Sewer Enterprise Fund	235,486	14,851
Water Enterprise Fund	118	54,209
Total	<u>\$265,075</u>	<u>\$265,075</u>

CITY OF TALLULAH

Tallulah, Louisiana

Notes to the Financial Statements (Continued)

5. FIXED ASSETS

The following presents the changes in general fixed assets for the year ended June 30, 2002:

	Balance at July 1, 2001	Additions	Deletions	Balance at June 30, 2002
Land	\$78,500			\$78,500
Buildings and improvements	2,123,173	\$221,767		2,344,940
Furniture and equipment	1,046,043	47,360	(\$72,753)	1,020,650
Assets under capital lease	139,391			139,391
Construction in progress	137,375	84,392	(221,767)	NONE
Total	<u>\$3,524,482</u>	<u>\$353,519</u>	<u>(\$294,520)</u>	<u>\$3,583,481</u>

A summary of plant and equipment used in the Sewer System Enterprise Fund follows:

	Sewer Fund	Water Fund	Total
Land	\$612,879	\$65,451	\$678,330
Equipment	312,457	530,451	842,908
Plant	7,866,378	2,034,116	9,900,494
Transmission lines	326,942	2,203,053	2,529,995
Water systems		2,980,369	2,980,369
Pumping stations		337,944	337,944
Total depreciable assets	9,118,656	8,151,384	17,270,040
Less accumulated depreciation	(1,885,395)	(1,229,222)	(3,114,617)
Net depreciable assets	7,233,261	6,922,162	14,155,423
Add construction in progress		1,941,085	1,941,085
Total plant and equipment	<u>\$7,233,261</u>	<u>\$8,863,247</u>	<u>\$16,096,508</u>

6. PENSION PLANS

Substantially all employees of the City of Tallulah are members of either the Firefighters' Retirement System of Louisiana, the Municipal Police Retirement System of Louisiana, or the Social Security System. The state retirement systems are each multiple-employer, public employee retirement systems (PERS), controlled and administered by separate boards of trustees.

CITY OF TALLULAH

Tallulah, Louisiana

Notes to the Financial Statements (Continued)

FIREFIGHTERS' RETIREMENT SYSTEM OF LOUISIANA

Membership in the Louisiana Firefighters Retirement System is mandatory for all full-time firefighters employed by a municipality, parish, or fire protection district that did not enact an ordinance before January 1, 1980, exempting itself from participation in the System. Employees are eligible to retire at or after age 55 with at least 12 years of creditable service or at or after age 50 with at least 20 years of creditable service. Upon retirement, members are entitled to a retirement benefit, payable monthly for life, equal to 3 1/3 per cent of their final-average salary for each year of creditable service, not to exceed 100 per cent of their final-average salary. Final-average salary is the employee's average salary over the 36 consecutive or joined months that produce the highest average. Employees who terminate with at least 12 years of service and do not withdraw their employee contributions may retire at or after age 55 (or at or after age 50 with at least 20 years of creditable service at termination) and receive the benefit accrued to their date of termination. The System also provides death and disability benefits. Benefits are established or amended by state statute.

The system issues an annual publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the Firefighters' Retirement System, Post Office Box 94095, Baton Rouge, Louisiana 70804, or by calling (225) 925-4060.

Plan members are required by state statute to contribute 8.0 per cent of their annual covered salary and the City of Tallulah is required to contribute an actuarially determined rate. The current rate is 9.0 per cent of annual covered payroll. The contribution requirements of plan members and the City of Tallulah are established and may be amended by state statute. As provided by Louisiana Revised Statute 11:103, the employer contributions are determined by actuarial valuation and are subject to change each year based on the results of the valuation for the prior fiscal year. The City of Tallulah's contributions to the System for the years ending June 30, 2002, 2001, and 2000, were \$10,742, \$9,347, and \$9,867, respectively, equal to the required contributions for each year.

MUNICIPAL POLICE EMPLOYEES' RETIREMENT SYSTEM

All full-time police department employees engaged in law enforcement are required to participate in the System. Employees who retire at or after age 50 with at least 20 years of creditable service or at or after age 55 with at least 12 years of creditable service are entitled to a retirement benefit, payable monthly for life, equal to 3 1/3 per cent of the final-average salary for each year of creditable service. Final-average salary is the employee's average salary over the 36 consecutive or joined months that produce the highest average. Employees who terminate with at least the amount of creditable service stated above, and do not withdraw their employee contributions, may

CITY OF TALLULAH

Tallulah, Louisiana

Notes to the Financial Statements (Continued)

retire at the ages specified previously and receive the benefit accrued to their date of termination. The System also provides death and disability benefits. Benefits are established or amended by state statute.

The System issues an annual publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the Municipal Police Employees Retirement System of Louisiana, 8401 United Plaza Boulevard, Baton Rouge, Louisiana 70809-2250, or by calling (225) 929-7411.

Plan members are required by state statute to contribute 7.5 per cent of their annual covered salary and the City of Tallulah is required to contribute at an actuarially determined rate. The current rate is 9.0 per cent of annual covered payroll. The contribution requirements of plan members and the City of Tallulah are established and may be amended by state statute. As provided by Louisiana Revised Statute 11:103, the employer contributions are determined by actuarial valuation and are subject to change each year based on the results of the valuation for the prior fiscal year. The City of Tallulah's contributions to the System for the years ended June 30, 2002, 2001, and 2000, were \$23,079, \$23,394, and \$22,230, respectively, equal to the required contributions for each year.

7. BANK LOANS PAYABLE

During the year ended June 30, 1997, the city secured a bank loan to finance the construction of a factory building. The amount of the loan was \$376,813 with 7.0 per cent interest. The remaining principal in the amount of \$180,220 is due in annual installments of \$51,894 through 2007. Loan payments are made from the General Fund.

8. CHANGES IN LONG-TERM OBLIGATIONS

The following is a summary of long-term obligation transactions for the year ended June 30, 2002:

	Bonded Debt	Capital Leases	Lawsuit Settlement	Other	Total
Long-term debt at July 1, 2001	\$2,969,392	\$109,207	NONE	\$413,037	\$3,491,636
Additions	70,934	21,852	150,000		242,786
Retirements	(266,444)	(41,822)		(59,506)	(367,772)
Long-term debt at June 30, 2002	<u>\$2,773,882</u>	<u>\$89,237</u>	<u>\$150,000</u>	<u>\$353,531</u>	<u>\$3,366,650</u>

CITY OF TALLULAH

Tallulah, Louisiana

Notes to the Financial Statements (Continued)

The classification, "other", consists of \$173,311 which represents the balance remaining as a result of the City of Tallulah's Police Retirement Fund merging with the Municipal and State Police Retirement System of Louisiana, and \$180,220, representing a bank loan.

Bonded debt payable at June 30, 2002, are comprised of the following individual issues:

General obligation bonds:

\$260,000 - 1981 General Obligation Bonds. The remaining principal is due in annual installments of \$4,782 to \$14,527 through October 8, 2021, with interest of 5 per cent. Debt retirement payments are made from the 1981 General Obligation Bond Debt Service Fund. \$191,773

\$640,000 - 1998 Refunding Bonds. The remaining principal is due in annual installments of \$15,000 to \$80,000 through March 1, 2008, with interest of 4.95 per cent. Debt retirement payments are made from the 1998 General Obligation Bond Debt Service Fund. 410,000

\$327,740 - Certificates of Indebtedness. The principal will be due in annual installments of \$42,187 June 30, 2011. Interest is 4.50 per cent. 297,109

Total general obligation bonds 898,882

Revenue bond - \$2,390,000 - 1998 Public Improvement Refunding Bonds. The remaining principal is due in annual installments of \$175,000 to \$260,000 through July 1, 2009. Interest rates are 3.90 per cent to 5.00 per cent. Debt retirement payments are made from the 1998 Public Improvement Bond Debt Service Fund. 1,875,000

Total bonded debt payable from governmental fund type funds \$2,773,882

Water Revenue bonds

\$6,500,000 - Principal is due in annual installments of \$140,000 to \$465,000 through September 1, 2024. Interest rates are 4.00 per cent to 5.50 per cent. Debt retirement payments are made from the Water Enterprise Fund \$6,215,000

CITY OF TALLULAH

Tallulah, Louisiana

Notes to the Financial Statements (Continued)

\$1,733,000 - Principal is due in monthly installments starting February 26, 2003, of \$8,356 through January 26, 2041. Interest rate is 4.875 per cent. Debt retirement payments are made from the Water Enterprise Fund

1,733,000

\$728,000 - Principal is due in equal annual installments starting August 20, 2002, through August 20, 2042. Interest rate is 4.50 per cent. Debt retirement payments are made from the Water Enterprise Fund

728,000

Total revenue bonds payable from Water Enterprise Fund \$8,676,000

As shown on Statement A, \$789,022 is available in debt service funds to service the bonded debt in the general long-term debt account group. The annual requirements to amortize all outstanding debt at June 30, 2002, including interest of \$771,951 for the general long-term debt and \$7,659,784 in the Water Enterprise fund, are as follows:

<u>Year</u>	<u>General Long -Term Debt</u>	<u>Water Enterprise Fund</u>
2003	\$574,626	\$735,618
2004	611,168	620,228
2005	580,888	631,227
2006	519,629	629,132
2007	442,030	631,382
2008-2012	1,205,323	3,141,570
2013-2017	109,333	3,153,178
2018-2022	76,916	3,144,540
2023-2027		1,681,990
2028-2032		703,010
2033-2037		703,010
2038-2042		560,898
Total	<u><u>\$4,119,913</u></u>	<u><u>\$16,335,783</u></u>

General obligation bonds totaling \$898,882, at June 30, 2002, are secured by an annual ad valorem tax levy. In accordance with Louisiana Revised Statute 39:562, the city is legally restricted from incurring long-term bonded debt in excess of 35 per cent of the assessed value of taxable property in the city. The city is within that statutory limitation.

CITY OF TALLULAH
Tallulah, Louisiana
Notes to the Financial Statements (Continued)

9. CONTRIBUTED CAPITAL

The city has received grants from various federal, state, and local agencies to finance the acquisition and construction of the enterprise fund fixed assets. The amount, shown as contributed capital on the balance sheet, is reduced each year by the amount of depreciation expense recognized on fixed assets constructed or acquired with the grant funds. At June 30, 2002, accumulated reduction of contributed capital related to those assets is \$1,621,428.

10. LITIGATION AND CLAIMS

At June 30, 2002, the city is involved in several lawsuits. The City reached a settlement on one lawsuit subsequent to year end. A long term liability has been accrued in the general fund in the amount of \$150,000. In the opinion of the city's legal counsel, the outcome of any remaining lawsuits will not materially affect the financial statements.

11. SEGMENT INFORMATION

The city maintains two enterprise funds which provide water and sewer services. Segment information for the year ended June 30, 2002, was as follows.

	Water Fund	Sewer Fund	Total Enterprise Funds
Operating Revenues	\$1,648,317	\$580,145	\$2,228,462
Depreciation and Amortization Expense	336,699	149,499	486,198
Operating Income (Loss)	362,720	(146,839)	215,881
Operating Transfers Out	207,500		207,500
Net Income (Loss)	1,333,456	(110,846)	1,222,610
Property, Plant, and Equipment - Additions	2,218,509	49,852	2,268,361
Net Working Capital	548,279	297,598	845,877
Total Assets	10,739,907	7,819,857	18,559,764
Bonds Payable From Operating Revenues	8,676,000		8,676,000
Total Equity	1,906,958	927,756	2,834,714

12. PRIOR PERIOD ADJUSTMENT

Beginning retained earnings in the Water Fund has been restated by \$573,502 due to reclassification of bond proceeds.

SUPPLEMENTAL INFORMATION SCHEDULES

CITY OF TALLULAH
Tallulah, Louisiana
SUPPLEMENTAL INFORMATION SCHEDULES
As of and for the Year Ended June 30, 2002

SPECIAL REVENUE FUNDS

SECTION 8 FUND

The Section 8 Fund accounts for the operations of the lower income housing assistance program which provides aid to very low income families in obtaining decent, safe, and sanitary rental housing. Financing is provided by a federal grant.

STREET PROGRAM FUND

The Street Program Fund accounts for the maintenance of the city streets. Major means of financing is provided by a specific citywide ad valorem tax.

BUILDING REPAIR FUND

The Building Repair Fund accounts for repairs and maintenance of the city hall funded by a grant from the State of Louisiana.

TEC BUILDING FUND

The TEC Building Fund accounts for revenue received from the rental of a city owned building.

Schedule 1

CITY OF TALLULAH
Tallulah, Louisiana
SPECIAL REVENUE FUNDS

Combining Balance Sheet, June 30, 2002

	<u>SECTION 8</u>	<u>STREET PROGRAM</u>	<u>BUILDING REPAIR</u>	<u>TEC BUILDING</u>	<u>TOTAL</u>
ASSETS					
Cash and cash equivalents	\$104,952	\$103,954	\$10	\$9,982	\$218,898
Due from other funds		785			785
Total Assets	<u>\$104,952</u>	<u>\$104,739</u>	<u>\$10</u>	<u>\$9,982</u>	<u>\$219,683</u>
LIABILITIES AND FUND EQUITY					
Liabilities:					
Accounts payable		\$12,399			\$12,399
Due to other funds		13,560			13,560
Deferred revenue	<u>\$104,952</u>				<u>104,952</u>
Total Liabilities	104,952	25,959	NONE	NONE	130,911
Fund equity - fund balances - unreserved - undesignated	<u>NONE</u>	<u>78,780</u>	<u>\$10</u>	<u>\$9,982</u>	<u>88,772</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$104,952</u>	<u>\$104,739</u>	<u>\$10</u>	<u>\$9,982</u>	<u>\$219,683</u>

CITY OF TALLULAH
Tallulah, Louisiana
SPECIAL REVENUE FUNDS

Combining Schedule of Revenues, Expenditures,
and Changes in Fund Balances
For the Year Ended June 30, 2002

	<u>SECTION 8</u>	<u>STREET PROGRAM</u>	<u>BUILDING REPAIR</u>	<u>TEC BUILDING</u>	<u>TOTAL</u>
REVENUES					
Ad valorem taxes		\$133,210			\$133,210
Intergovernmental revenues - federal grants	\$153,835				153,835
Use of money and property		1,296		\$162	1,458
Total revenues	<u>153,835</u>	<u>134,506</u>	<u>NONE</u>	<u>162</u>	<u>288,503</u>
EXPENDITURES					
Current:					
Public works		83,594			83,594
Health and welfare	160,696				160,696
Total expenditures	<u>160,696</u>	<u>83,594</u>	<u>NONE</u>	<u>NONE</u>	<u>244,290</u>
EXCESS (Deficiency) OF REVENUES OVER EXPENDITURES	(6,861)	50,912	NONE	162	44,213
FUND BALANCES AT BEGINNING OF YEAR	<u>6,861</u>	<u>27,868</u>	<u>\$10</u>	<u>9,820</u>	<u>44,559</u>
FUND BALANCES AT END OF YEAR	<u>NONE</u>	<u>\$78,780</u>	<u>\$10</u>	<u>\$9,982</u>	<u>\$88,772</u>

CITY OF TALLULAH
Tallulah, Louisiana
SUPPLEMENTAL INFORMATION SCHEDULES
As of and for the Year Ended June 30, 2002

DEBT SERVICE FUNDS

1998 GENERAL OBLIGATION BOND FUND

The 1998 General Obligation Bond Fund accumulates monies for payment of \$640,000 General Obligation Bonds dated January 22, 1998, issued for the purpose of providing for defeasement of the 1988 General Obligation Bonds. Funding is provided by an ad valorem tax.

1988 CERTIFICATES OF INDEBTEDNESS FUND

The 1988 Certificates of Indebtedness Fund accumulates monies for payment of the \$700,000 Certificates of Indebtedness dated February 1, 1988, issued for the purpose of refunding and extending certain obligations incurred by the city. Funding is provided from the excess of annual revenues accruing to the budget of the city for a ten-year period. These certificates were retired during the year ended June 30, 2000.

1981 GENERAL OBLIGATION BOND FUND

The 1981 General Obligation Bond fund accumulates monies for payment of \$260,000 General Obligation Bonds dated October 8, 1981, issued for the purpose of constructing improvements and extensions to the sewer system of the city. Funding is provided by an ad valorem tax.

1998 PUBLIC IMPROVEMENT BOND FUND

The 1998 Public Improvement Bond Fund accumulates monies for payment of the \$2,390,000 Revenue Refunding Bonds dated March 12, 1998, issued for the purpose of providing for defeasement of the 1989 Public Improvement Bonds. Funding is provided by a two per cent sales tax.

CITY OF TALLULAH
Tallulah, Louisiana
DEBT SERVICE FUNDS

Combining Balance Sheet, June 30, 2002

	1998 GENERAL OBLIGATION BOND	1988 CERTIFICATES OF INDEBTEDNESS	1981 GENERAL OBLIGATION BOND	1998 PUBLIC IMPROVEMENT BOND	TOTAL
ASSETS					
Cash and cash equivalents	\$254,673	\$941	\$46,630		\$302,244
Investments				\$486,778	486,778
TOTAL ASSETS	<u>\$254,673</u>	<u>\$941</u>	<u>\$46,630</u>	<u>\$486,778</u>	<u>\$789,022</u>
LIABILITIES AND FUND EQUITY					
Liabilities	NONE	NONE	NONE	NONE	NONE
Fund Equity - fund balances - reserved for debt service	<u>\$254,673</u>	<u>\$941</u>	<u>\$46,630</u>	<u>\$486,778</u>	<u>\$789,022</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$254,673</u>	<u>\$941</u>	<u>\$46,630</u>	<u>\$486,778</u>	<u>\$789,022</u>

CITY OF TALLULAH
Tallulah, Louisiana
DEBT SERVICE FUNDS

Combining Schedule of Revenues, Expenditures,
and Changes in Fund Balances
For the Year Ended June 30, 2002

	1998 GENERAL OBLIGATION BOND	1988 CERTIFICATES OF INDEBTEDNESS	1981 GENERAL OBLIGATION BOND	1998 PUBLIC IMPROVEMENT BOND	TOTAL
REVENUES					
Taxes - ad valorem	\$122,544		\$15,286	\$15,286	\$153,116
Use of money and property	1,806	\$18	347		2,171
Total revenues	<u>124,350</u>	<u>18</u>	<u>15,633</u>	<u>15,286</u>	<u>155,287</u>
EXPENDITURES					
Debt service:					
Principal	55,000		5,814	175,000	235,814
Interest and bank charges	22,980		9,602	96,715	129,297
Total expenditures	<u>77,980</u>	<u>NONE</u>	<u>15,416</u>	<u>271,715</u>	<u>365,111</u>
EXCESS (Deficiency) OF REVENUES OVER EXPENDITURES	46,370	18	217	(256,429)	(209,824)
OTHER FINANCING SOURCES					
Operating transfers in	<u>NONE</u>	<u>NONE</u>	<u>NONE</u>	<u>239,292</u>	<u>239,292</u>
EXCESS (Deficiency) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES	46,370	18	217	(17,137)	29,468
FUND BALANCES AT BEGINNING OF YEAR	<u>208,303</u>	<u>923</u>	<u>46,413</u>	<u>503,915</u>	<u>759,554</u>
FUND BALANCES AT END OF YEAR	<u>\$254,673</u>	<u>\$941</u>	<u>\$46,630</u>	<u>\$486,778</u>	<u>\$789,022</u>

CITY OF TALLULAH
Tallulah, Louisiana
SUPPLEMENTAL INFORMATION SCHEDULES
As of and for the Year Ended June 30, 2002

CAPITAL PROJECTS FUNDS

LCDBG Capital Projects Fund

The Louisiana Community Development Block Grant Fund accounts for major improvements to the streets of the city. Financing is provided by a grant from the United States Department of Housing and Urban Development through the Louisiana Division of Administration.

Fire Protection Capital Projects Fund

The Fire Protection Capital Projects Fund accounts for the acquisition of equipment and the construction of a new fire station. Interim financing is provided by loans from the Federal Housing Administration.

Schedule 5

CITY OF TALLULAH
Tallulah, Louisiana
CAPITAL PROJECTS FUNDS

Combining Balance Sheet, June 30, 2002

	<u>LCDBG</u>	<u>FIRE PROTECTION</u>	<u>TOTAL</u>
ASSETS	<u>NONE</u>	<u>NONE</u>	<u>NONE</u>
LIABILITIES AND FUND EQUITY			
Liabilities -			
Bank overdraft	\$2		\$2
Due to other funds	<u>193</u>	<u>\$100</u>	<u>293</u>
Total liabilities	195	100	295
Fund equity - fund balances -			
unreserved - undesignated	<u>(195)</u>	<u>(100)</u>	<u>(295)</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>NONE</u>	<u>NONE</u>	<u>NONE</u>

Schedule 6

CITY OF TALLULAH
Tallulah, Louisiana
CAPITAL PROJECTS FUNDS

Combining Schedule of Revenues, Expenditures,
and Changes in Fund Balances
For the Year Ended June 30, 2002

	<u>LCDBG</u>	<u>FIRE PROTECTION</u>	<u>TOTAL</u>
REVENUES			
Intergovernmental - Local funds	\$17,950		\$17,950
EXPENDITURES			
Administration	17,950		17,950
Miscellaneous	89	\$9	98
Capital outlay		84,392	84,392
EXCESS (Deficiency) OF REVENUES OVER EXPENDITURES	<u>(89)</u>	<u>(84,392)</u>	<u>(66,442)</u>
OTHER FINANCING SOURCES			
Operating transfers in		13,049	13,049
Loan proceeds		70,934	70,934
Total Other Financing Sources	<u>NONE</u>	<u>83,983</u>	<u>83,983</u>
EXCESS (Deficiency) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES	(89)	(409)	17,541
FUND BALANCES (Deficit) AT BEGINNING OF YEAR	<u>(106)</u>	<u>318</u>	<u>212</u>
FUND BALANCES (Deficit) AT END OF YEAR	<u><u>(\$195)</u></u>	<u><u>(\$91)</u></u>	<u><u>(\$286)</u></u>

CITY OF TALLULAH
Tallulah, Louisiana
SUPPLEMENTAL INFORMATION SCHEDULES
As of and for the Year Ended June 30, 2002

PROPRIETARY FUND TYPE - ENTERPRISE FUNDS

WATER FUND

The Water Enterprise Fund accounts for the operations of the city's water department. Financing is provided primarily by fees from water sales. Major expenses of the fund are personal services and depreciation.

SEWER FUND

The Sewer Enterprise Fund accounts for the operations of the city's sewer system. Financing is provided primarily by user fees. Major expenses of the fund are personal services and depreciation.

CITY OF TALLULAH
Tallulah, Louisiana
ENTERPRISE FUNDS

Combining Balance Sheet, June 30, 2002

	<u>WATER FUND</u>	<u>SEWER FUND</u>	<u>TOTAL</u>
ASSETS			
Current assets:			
Cash	\$439,138	\$516,086	\$955,224
Receivables	208,174	40,842	249,016
Due from other funds	54,209	14,851	69,060
Prepaid expenses	1,748	1,748	1,748
Total current assets	<u>701,521</u>	<u>573,527</u>	<u>1,275,048</u>
Restricted assets:			
Cash	3,423	13,069	16,492
Investments	808,411		808,411
Total restricted assets	811,834	13,069	824,903
Property, plant and equipment (net of accumulated depreciation)	8,942,767	7,233,261	16,176,028
Deferred bond issuance cost (net of amortization)	283,785		283,785
TOTAL ASSETS	<u><u>\$10,739,907</u></u>	<u><u>\$7,819,857</u></u>	<u><u>\$18,559,764</u></u>
LIABILITIES AND FUND EQUITY			
Liabilities:			
Current liabilities (payable from current assets):			
Accounts payable	\$116,861	\$36,992	\$153,853
Salaries payable	10,902	3,451	14,353
Due to other funds	118	235,486	235,604
Deferred revenue	25,361		25,361
Total current liabilities (payable from current assets)	<u>153,242</u>	<u>275,929</u>	<u>429,171</u>
Current liabilities (payable from restricted assets):			
Customer deposits	3,707	44,280	47,987
Current portion of long-term debt	156,631		156,631
Total current liabilities (payable from restricted assets)	<u>160,338</u>	<u>44,280</u>	<u>204,618</u>
Long-term debt - revenue bonds payable	8,519,369		8,519,369
Total Liabilities	<u>8,832,949</u>	<u>320,209</u>	<u>9,153,158</u>
Fund equity:			
Contributed capital (net of amortization)		6,571,892	6,571,892
Retained earnings (deficit):			
Unreserved - undesignated	1,906,958	927,756	2,834,714
Total Retained Earnings	<u>1,906,958</u>	<u>927,756</u>	<u>2,834,714</u>
Total Fund Equity	<u>1,906,958</u>	<u>7,499,648</u>	<u>9,406,606</u>
TOTAL LIABILITIES AND FUND EQUITY	<u><u>\$10,739,907</u></u>	<u><u>\$7,819,857</u></u>	<u><u>\$18,559,764</u></u>

CITY OF TALLULAH
Tallulah, Louisiana
ENTERPRISE FUNDS

Combining Schedule of Revenues, Expenses,
and Changes in Retained Earnings
For the Year Ended June 30, 2002

	Water Fund	Sewer Fund	Total
OPERATING REVENUES			
Charges for services	\$1,577,061	\$423,025	\$2,000,086
Other operating revenues	71,256	157,120	228,376
Total operating revenues	<u>1,648,317</u>	<u>580,145</u>	<u>2,228,462</u>
OPERATING EXPENSES			
Personal services	595,626	243,016	838,642
Supplies	117,683	2,627	120,310
Maintenance	65,091	170,571	235,662
Utilities	79,327	83,357	162,684
Miscellaneous	60,222	57,113	117,335
Uniforms	7,670	3,410	11,080
Insurance	22,107	6,913	29,020
Accounting fees	7,750		7,750
Bad debt expense	14,936	10,478	25,414
Depreciation	315,185	149,499	464,684
Total operating expenses	<u>1,285,597</u>	<u>726,984</u>	<u>2,012,581</u>
OPERATING INCOME (Loss)	<u>362,720</u>	<u>(146,839)</u>	<u>215,881</u>
NON-OPERATING REVENUES (Expenses)			
Grant revenue	1,601,550		1,601,550
Interest income	25,261	15,015	40,276
Interest expense	(427,061)		(427,061)
Increase in capital lease		21,852	21,852
Debt service		(874)	(874)
Operating transfer out	(207,500)		(207,500)
Amortization of bond issue costs	(21,514)		(21,514)
Total non-operating revenues (expenses)	<u>970,736</u>	<u>35,993</u>	<u>1,006,729</u>
NET INCOME (Loss)	1,333,456	(110,846)	1,222,610
Add depreciation on fixed assets acquired with contributed capital		<u>136,555</u>	<u>136,555</u>
INCREASE IN RETAINED EARNINGS	1,333,456	25,709	1,359,165
RETAINED EARNINGS AT BEGINNING OF YEAR	<u>573,502</u>	<u>902,047</u>	<u>1,475,549</u>
RETAINED EARNINGS AT END OF YEAR	<u><u>\$1,906,958</u></u>	<u><u>\$927,756</u></u>	<u><u>\$2,834,714</u></u>

Schedule 9

CITY OF TALLULAH
Tallulah, Louisiana
ENTERPRISE FUNDS

Combining Schedule of Cash Flows
For the Year Ended June 30, 2002

	Water Fund	Sewer Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating Income (Loss)	\$362,720	(\$146,839)	\$215,881
Adjustments to Reconcile operating Income (Loss) to Net cash Provided (Used) by operating activities:			
Depreciation and amortization	315,185	149,499	464,684
Decrease (increase) in accounts receivable	(68,452)	4,518	(63,934)
Increase (decrease) in accounts payable	(103,992)	15,696	(88,296)
Decrease (increase) in interfund receivable	(54,209)	(14,851)	(69,060)
Increase (decrease) in interfund payables	(1,614)	49,499	47,885
Increase in prepaid expenses		(1,748)	(1,748)
Increase in customer deposits	2,009	(60,295)	(58,286)
Total adjustments	88,927	142,318	231,245
Net cash provided by operating activities	451,647	(4,521)	447,126
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES			
Non-operating transfer out	(207,500)		(207,500)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(2,218,509)	(49,852)	(2,268,361)
Increase in capital lease		21,852	21,852
Increase in deferred revenue	15,259		15,259
Debt service		(874)	(874)
Bonds proceeds	2,461,000		2,461,000
Bond payment	(145,000)		(145,000)
Interest paid on bonds	(427,061)		(427,061)
Net cash used by capital and related financing activities	(314,311)	(28,874)	(343,185)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest earnings	25,261	15,015	40,276
NET CHANGE IN CASH AND CASH EQUIVALENTS	(44,903)	(18,380)	(63,283)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,295,875	547,535	1,843,410
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$1,250,972	\$529,155	\$1,780,127

CITY OF TALLULAH
Tallulah, Louisiana
SUPPLEMENTAL INFORMATION SCHEDULE
As of and For the Year Ended June 30, 2002

COMPENSATION PAID COUNCIL MEMBERS

The schedule of per diem paid council members is presented in compliance with House Concurrent Resolution No. 54 of the 1979 Session of the Louisiana Legislature. Compensation of council members is included in legislative expenditures of the General Fund. In accordance with Louisiana Revised Statute 33:405, council members receive \$500 per month. The mayor pro tem receives \$525 per month.

Schedule 10

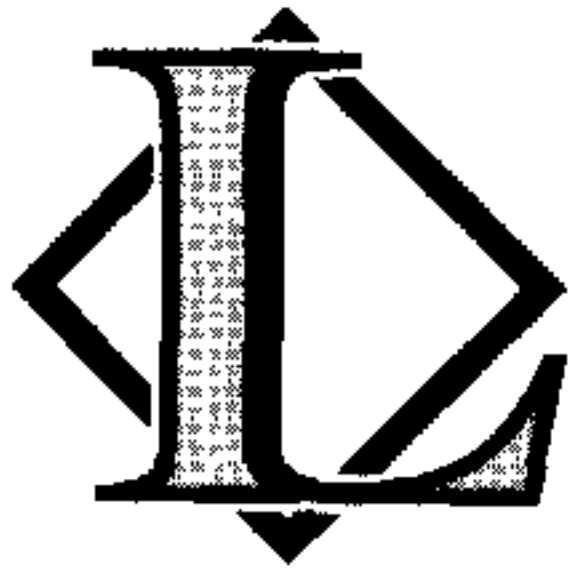
**CITY OF TALLULAH
Tallulah, Louisiana**

**Schedule of Compensation Paid Council Members
For the Year Ended June 30, 2002**

Eddie Elledge	\$5,500
Charles Finlayson	5,500
Doris Greene	6,050
Billy James	6,225
Tommy Watson	<u>5,500</u>
Total	<u><u>\$28,775</u></u>

**Independent Auditors' Reports
on Compliance with
Laws, Regulations, Contracts, and Grants,
and Internal Control**

The following independent auditors' reports on compliance with laws, regulations, contracts, and grants and internal control are presented in compliance with the requirements of *Government Auditing Standards*, issued by the Comptroller General of the United States; the U. S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; the *Single Audit Act Amendments of 1996*; and the *Louisiana Governmental Audit Guide*, issued jointly by the Society of Louisiana Certified Public Accountants and the Louisiana Legislative Auditor.



LITTLE & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

**Independent Auditors' Report on Compliance and
Internal Control Over Financial Reporting**

Wm. TODD LITTLE, CPA
JAMES C. BOND, CPA
CHARLES R. MARCHBANKS, JR., CPA

Mayor and Council Members
City of Tallulah
Tallulah, Louisiana

We have audited the general purpose financial statements of the City of Tallulah as of and for the year ended June 30, 2002, and have issued our report thereon dated December 26, 2002. We conducted our audit in accordance with U. S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Tallulah's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed several instances of noncompliance that are required to be reported under *Government Auditing Standards*. Those findings are presented in the accompanying schedule of findings and questioned costs as items 02-01 through 02-05.

Internal Control Over Financial Reporting

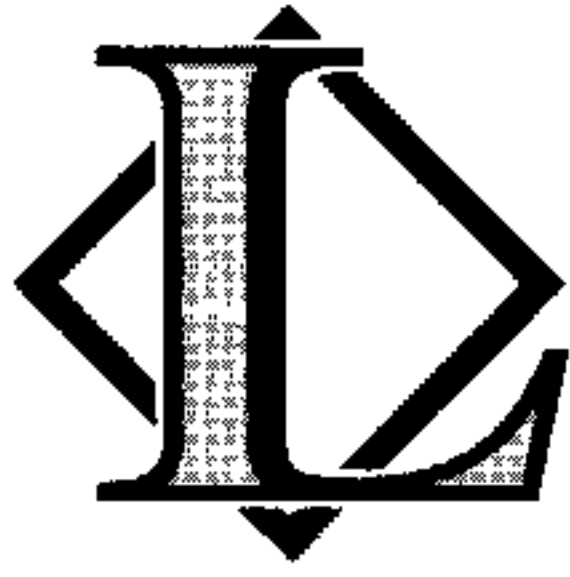
In planning and performing our audit, we considered the City of Tallulah's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However we noted two matters involving the internal control over financial reporting that we have reported to the management of the City of Tallulah, in a separate letter dated December 26, 2002.

Mayor and Council Members
City of Tallulah Louisiana
Independent Auditors' Report on Compliance
And Internal Control Over Financial Reporting, etc.
June 30, 2002

This report is intended solely for the information and use of the mayor and council members of the City of Tallulah, management of the city, and federal awarding agencies, pass-through entities and the Louisiana Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties.

Little & Associates

Monroe, Louisiana
December 26, 2002



LITTLE & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

**Independent Auditors' Report on Compliance
With Requirements Applicable to Each Major Program
and Internal Control Over Compliance**

Wm. TODD LITTLE, CPA
JAMES C. BOND, CPA
CHARLES R. MARCHBANKS, JR., CPA

CITY OF TALLULAH
Tallulah, Louisiana

Compliance

We have audited the compliance of the City of Tallulah with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that is applicable to its major federal program for the year ended June 30, 2002. The City of Tallulah's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City of Tallulah. Our responsibility is to express an opinion on the City of Tallulah's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Tallulah's compliance with those requirements and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Tallulah's compliance with those requirements.

In our opinion, the City of Tallulah complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2002. The results of our auditing procedures disclosed one instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133. That finding is presented in the accompanying schedule of findings and questioned costs as item 02-06.

CITY OF TALLULAH

Tallulah, Louisiana

Independent Auditors' Report on Compliance

With Requirements Applicable to Each Major

Program and Internal Control Over Compliance, etc.

June 30, 2002

Internal Control Over Compliance

The management of the City of Tallulah is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Tallulah's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the City of Tallulah, management of the city, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Monroe, Louisiana

December 26, 2002

Little & Associates

CITY OF TALLULAH
Tallulah, Louisiana

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2002

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the general purpose financial statement of the City of Tallulah.
2. No reportable conditions relating to the audit of the financial statements are reported in the Independent Auditors' Report on Compliance and Internal Control Over Financial Reporting.
3. Five instances of noncompliance material to the financial statements of the City of Tallulah are reported in the Independent Auditors' Report on Compliance and Internal Control Over Financial Reporting.
4. No reportable conditions relating to the audit of the major federal award programs is reported in the Independent Auditors' Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance.
5. The auditors' report on compliance for the major federal award program of the City of Tallulah expresses an unqualified opinion.
6. One audit finding relative to the major federal award program of the City of Tallulah is reported.
7. The program tested as a major program was the Water and Waste Disposal Systems for Rural Communities - CFDA number 10.760.
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. The City of Tallulah was determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

02-01 Payroll Advance

Finding: An employee of the city was granted, in proper channels and procedure, a raise beginning in July 2002. However, on June 25, 2002, the employee was given \$1,200 in advance of the raise. This represents a loan of funds from a political subdivision of the state, in violation of Article VII, Section 14 of the Louisiana Constitution.

CITY OF TALLULAH
Tallulah, Louisiana

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2002

Recommendation: We recommend that the employee refund the unearned portion of the advance immediately and that the City refrain from granting payroll advances in the future.

02-02 Overpayment of Mayor's Salary

Finding: The mayor was overpaid \$4,243 in compensation. The overpayment was the result of the mayor authorizing and receiving payment for unused annual leave. According to Louisiana R.S. 33:404.1, "The board of aldermen shall by ordinance fix the compensation of the mayor" This action is achieved through the annual budget ordinance and subsequent budget amendments. By authorizing the additional compensation for unused annual leave, the mayor was in violation of the above referenced statute. The mayor has agreed to reimburse the City for overpaid salary received.

Recommendation: We recommend that the City refrain from paying the mayor compensation over and above that authorized by the board of aldermen.

02-03 Related Party Transactions

Finding: A member of the board of aldermen was paid a fee for cleaning the fair grounds. The alderman represents that she was no more than a conduit for the monies going to the people who actually did the work. However, in applying substance over form, she was the contractor and the others who were paid for the work were sub-contractors to her. Additionally, the City paid an employee \$4,470 for contract work performed after work hours or on weekends. Both instances violate LSA-R.S. 42:1113 of the *Ethics Code*, which states that "No public servant, . . ., shall bid on or enter into any contract, subcontract, or other transaction that is under the supervision or jurisdiction of the agency of such public servant."

Recommendation: We recommend that the City refrain from engaging in transactions with members of the board of aldermen, employees, or other public servants of the City. We further recommend that the City refrain from the appearance of contracting with such persons by using them as conduits for payment to actual service-providers.

CITY OF TALLULAH
Tallulah, Louisiana

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2002

02-04 Violation of Local Government Budget Act

Finding: The City's actual expenditures exceeded budgeted amounts by more than the 5% variance allowed by the Local Government Budget Act. Louisiana revised Statutes 39:1310 - 1311, provide that the budget shall be amended when "Total actual expenditures and other uses plus projected expenditures and other uses for the remainder of the year, within a fund, are exceeding the total budgeted expenditures and other uses by five percent or more." While the budget was amended by the board of aldermen, the amendment failed to account for all of the budget-to-actual variances and, consequently, still had an excessive unfavorable variance.

Recommendation: We recommend that the chief executive and administrative officials take greater care in the preparation of amended budgets to ensure that the 5% variance is not violated.

02-05 Unauthorized use of charge cards for employee purchases

Finding: In our test of expenditures we noted three instances of charges on the City's Sam's Club Direct charge card that appeared to be personal in nature. One for a DVD video, one for a photo album and another for denim shorts. This represents a violation of Article VII, Section 14 of the Louisiana Constitution as a donation of public funds. This is caused by a weakness in internal control whereby purchases are made without prior approval and credit card charges are not scrutinized closely to uncover personal purchases by employees.

Recommendation: The City should review all charge card purchases for unapproved purchases and/or personal purchases charged to the City. Abuses of the City's charge cards should be dealt with in the appropriate manner.

The Office of Legislative Auditor conducted an investigative audit during the year and issued a report dated October 16, 2002. The following presents findings noted by the Legislative Auditors' Office, their recommendations for corrective action, responses from the city, and comments by the city's independent auditors based on a follow-up review regarding what action has been taken with regard to those findings.

**City Failed to Prepare and Issue
an IRS Form 1099**

Finding: Between July 1998 and March 2002, the city paid Mr. Curtis Brown \$178,350 for various labor jobs including removal of trees and debris from streets. The invoices accepted by the City from Mr.

Brown often contained vague specifications as to the date, location, or service provided. Invoices and supporting documentation for 20 payments totaling \$15,650 were missing. In addition, the City failed to prepare and issue an Internal Revenue Service (IRS) Form 1099 to Mr. Brown for 1998 through 2000 and the Form 1099 issued to Mr. Brown for 2001 was understated by \$11,900. Mr. Brown stated that he did not file a state or federal income tax return for any of these years.

Legislative Auditors' Recommendation: We recommend that management for the City of Tallulah require contractors and vendors to provide detailed documentation as to date, type, and location of all services provided. Management should also ensure that adequate supporting documentation is received and maintained for all payments issued by the City and that all appropriate federal and state tax forms are prepared and issued in accordance with IRS and Louisiana Department of Revenue guidelines.

Management's Response: According to management, they are willing to require more invoice detail from all of their vendors in the future. Also, management stated that they do not pay anyone without being presented with an invoice along with determination that the services have been completed to their satisfaction. Therefore, any missing invoices resulted from the inability to locate them in outside storage areas. Management is striving to improve their performance regarding the yearly issuance of 1099's to all unincorporated vendors doing business with the City.

Follow-up Comments: The City has a new procedure instituted whereby any contractor with the City will provide all pertinent business or personal information to the City Clerk so that 1099's can be properly prepared.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT

02-06 Need to Maintain Proper and Complete Accounting Records

Finding: The City has not maintained an adequate set of accounting records for its water system rehabilitation program. The Office of Management and Budget's *Uniform Administrative Requirements For Grants and Cooperative Agreements to State and Local Governments* (OMB Common Rule), Section 20, requires the maintenance of accounting records. The Section requires that grantee records adequately identify the source and application of funds. The records must contain information pertaining to grant awards and authorizations, obligations, unobligated balances, assets, liabilities, expenditures and income. Management was unable to provide documentation on grant amounts. The grant revenue was posted to bond proceeds rather than a separate grant revenue account

Recommendation: The city's management should establish and maintain adequate records that not only document the type, source, and use of funds but also demonstrate compliance with the terms and conditions of grant and loan agreements.

CITY OF TALLULAH
Tallulah, Louisiana

Schedule of Expenditures of Federal Awards
For the Year ended June 30, 2002

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR NAME/ PROGRAM TITLE	CFDA NUMBER	PASS THROUGH GRANTORS NUMBER	EXPENDITURES
United States Department of Housing and Urban Development			
Direct programs:			
Section 8 Housing Program	14.177	LA242V0003	258,787
United States Department of Agriculture			
Passed through Rural Utilities Services - Water and Waste Disposal Systems for Rural Communities	10.760		\$1,601,550
United States Department of Transportation			
Passed through Louisiana Department of Transportation and Development - Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grant	20.601	0091-105	2,038
United States Department of Justice			
LLEBG-2001	16.592	2001LBBX3408	25,002
Total Federal Financial Assistance			<u>\$1,887,377</u>

NOTES:

1. The accompanying schedule of expenditures of federal awards is prepared on the modified accrual basis of accounting.

**CITY OF TALLULAH
Tallulah, Louisiana**

**Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2002**

There were no audit findings reported in the audit for the year ended June 30, 2001.

**City of Tallulah
Compliance Findings Response
December 30, 2002**

The City of Tallulah responds to the compliance findings in its 2002 Financial Audit in the following manner:

02-01 Payroll Advance

City administrators fully understand the violation of this transaction with a city employee and will never again handle an employee raise in this fashion.

02-02 Overpayment of Mayor's Salary

There was a misunderstanding by the Mayor and City Clerk on this issue. Since the City's personnel manual allowed for payment of unused vacation to an employee, the Mayor was erroneously included in this "employee" category when in fact he is an elected official. We now understand that the Mayor as an elected official does not enjoy this employee benefit.

02-03 Related Party Transactions

A Council Member was erroneously paid less than \$200 to act as a "conduit" for payment to an individual to clear trash from the Fair Grounds prior to a public event. This was a very unusual transaction at the time and was done for quick convenience without proper thought to all the ramifications involved. City administrators now understand the error and will not make such a transaction with a council member or city employee in the future.

The city employee who was paid \$4,470 for work performed after work hours and on week ends was heavily involved in the city's mosquito abatement program and spent many hours spraying and spreading larvae killer compounds. This individual was authorized to perform these functions by the City Council more than ten years ago and has performed these duties ever since during mosquito breeding seasons. However, in the past, such amounts of pay have been included in his payroll check which was not the case during the past fiscal year. In the future, all such mosquito abatement program wages will be included in the employee's payroll records.

02-04 Violation of Local Government Budget Act

The City's budget amendments this fiscal year did prove to be inadequate in light of all the year end accruals that had to be included. Some of these accruals included financial decisions made on the spot, so to speak, that were unknown at the time of year end budget adjustments. In the future, the chief executive and administrative

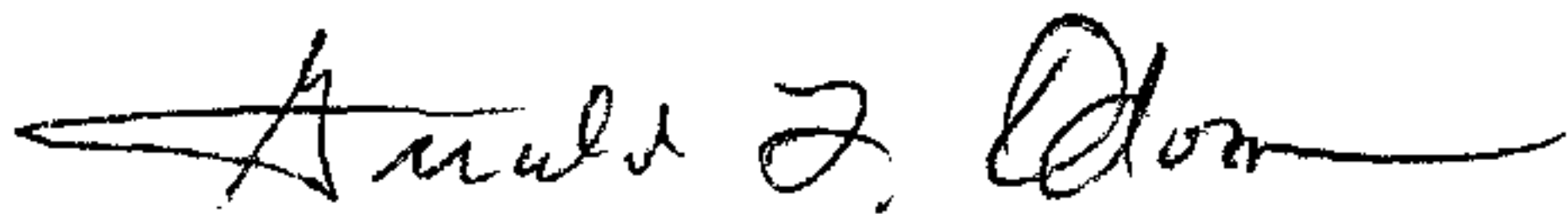
officials will give greater consideration for projections of possible unforeseen occurrences in its year end budget adjustments in order to properly remain in compliance with the Local Government Budget Act.

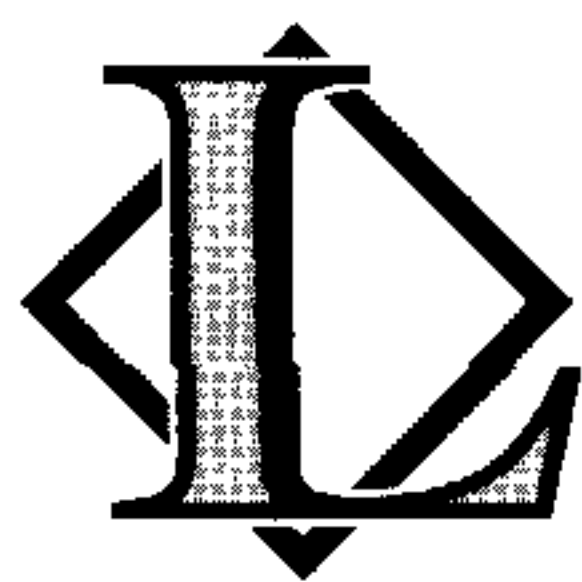
02-05 Unauthorized use of charge cards for employee purchases

These personal charges on the city's Sam's Club Direct charge account were reimbursed shortly after the time of purchase with the understanding that such acts were not to occur in the future. This policy is currently in place and is working well.

02-06 Need to Maintain Proper and Complete Accounting Records

For Phase I of the water rehabilitation program, the accounting of the project failed to designate separately federal loans received versus federal grants. All revenues were classified as "Federal Loans/Grants" with no distinction between the two categories. It was not known at the time that such a distinction should be made although to have done so would seem to be a practical presentation. In the future, all federal revenues will be classified as either loans or grants.

A handwritten signature in cursive script, reading "Arnold J. Dorn". The signature is written in dark ink and is positioned below the main body of text.



LITTLE & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

Wm. TODD LITTLE, CPA
JAMES C. BOND, CPA
CHARLES R. MARCHBANKS, JR., CPA

December 26, 2002

Mayor and Board of Aldermen
City of Tallulah
Tallulah, Louisiana

In planning and performing our audit of the financial statements of the City of Tallulah, for the year ended June 30, 2002, we considered the City's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of certain matters that are opportunities for strengthening internal control and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding this matter. We reported on the City's compliance and internal control over financial reporting in our report dated December 26, 2002. This report does not affect our report dated December 26, 2002, on the financial statements of City of Tallulah.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various administration representatives, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

Little & Associates

Memorandum on Internal Control
December 26, 2002

02-01. Expenditure for beads thrown from the City's float in the Krewe of Janus Mardi Gras Parade.

The City of Tallulah purchased beads and throws in the amount of \$4,890, for distribution from the City's float in the 2002 Krewe of Janus Mardi Gras Parade. Article VII, Section 14 of the Louisiana Constitution, provides, in pertinent part, "Except as otherwise provided by this constitution, the funds, credit, property, or things of value of the state or of any political subdivision shall not be loaned, pledged, or donated to or for any person, association, or corporation, public or private." The gift of the beads and throws from the float represented a donation. This position is supported by Attorney General No. 98-14.

We recommend that management of the City refrain from making future disbursements that will result in a donation of public property.

02-02 Failure to report income on Form 1099

The City paid \$8,675 and \$2,650 to separate contractors for street maintenance and repairs. Neither contractor was incorporated and neither contractor received a Form 1099, nor were these amounts reported to the Internal Revenue Service in some other manner. This violates Internal Revenue Code Sections 6041 - 6050S, *Information Returns and Payment at Source - Payments Made in the Course of Trade or Business*. City administrators represent that, in some instances, contractors are hired prior to his knowledge and the information required to file this information is not properly obtained in accordance with the City's purchasing procedures. This represents a weakness in internal control whereby contractors are hired, payments are made, and required information is not obtained for the filing of required information returns.

We recommend that procedures be put in place which requires that all information on contractors be obtained prior to work being performed and prior to payment for services.

Theodore Lindsey
Mayor

Gerald L. Odom
City Clerk



204 North Cedar St.
Tallulah, Louisiana 71282
Phone (318) 574-0964
Fax (318) 574-2773

Earl J. Pinkney
Chief of Police

City of Tallulah
Response to Management Letter City of Tallulah
2002 Financial Audit
December 31, 2002

**02-01 Expenditure for beads thrown from the City's float in the Krewe of Janus
Mardi Gras Parade**

Since it has been established that throwing beads from a Mardi Gras float constitutes a prohibitive donations of funds, the City will not participate in future Mardi Gras parades.

02-02 Failure to report income on Form 1099

A new procedure has already been instituted whereby any contracor with the City will provide all pertinent business or personal information to the City Clerk who will in turn have the correct information for which to issue a form 1099 at the appropriate time.

Gerald L. Odom